

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

**Application of Milwaukee Water Works, Milwaukee
County, Wisconsin, for Authority to Increase Water
Rates**

3720-WR-107

DIRECT TESTIMONY OF DAVID PROCHASKA

April 23, 2010

1 **Q. State your name, occupation, and business address.**

2 A. My name is David Prochaska. I am employed by the Public Service Commission of
3 Wisconsin (Commission) as a Public Utility Rate Analyst in the Division of Water,
4 Compliance and Consumer Affairs. My business address is 610 N. Whitney Way, P.O.
5 Box 7854, Madison, Wisconsin, 53707-7854.

6 **Q. State your educational background.**

7 A. I graduated from the University of Wisconsin-Platteville in 1983 with a Bachelor of
8 Science degree in Comprehensive Business and Economics. In 2000, I attended the
9 Utility Rate School sponsored by the National Association of Regulatory Utility
10 Commissioners (NARUC) Committee on Water.

11 **Q. State your work responsibilities.**

12 A. As a Public Utility Rate Analyst with the Commission, I prepare cost of service studies
13 and design rates for water utilities and combined water and sewer utilities in rate cases. I
14 also present testimony to provide the Commission with adequate information for making
15 decisions in rate cases.

16 **Q. What is the purpose of your testimony in this proceeding?**

1 A. The purpose of my testimony is to present and explain my rate design proposal which I
2 prepared in conjunction with the cost of service study.

3 **Q. Did you prepare or have prepared under your direction Exhibit 12.2, Cost of**
4 **Service Study and Rate Design Proposal (PSC REF#: 129346)?**

5 A. Yes.

6 **Q. Please describe the Rate Design Proposal that is part of Exhibit 12.2.**

7 A. The Rate Design Proposal in Exhibit 12.2 is comprised of the following schedules:

8 Schedule 12 - Comparison of Revenue at Present Rates, Cost of Service and Proposed
9 Rates

10 Schedule 13 - Proposed Water Rates and Rules

11 Schedule 14 - Customer Water Bill Comparison at Present and Proposed Rates

12 **Q. Please explain each of these schedules.**

13 A. Schedule 12 shows a comparison of revenue at present rates, revenue required as a result
14 of the cost of service study, and revenue at proposed rates. This comparison is made for
15 each customer class for the communities served at retail and at wholesale for both general
16 service and public fire protection service. A summary is included showing the overall
17 increase for each community served by Milwaukee Water Works (MWW). The retail
18 customer classifications are: Urban - Milwaukee; Suburban - Other (Greenfield, Hales
19 Corners, and St. Francis); and Suburban - West Milwaukee. These classifications are
20 further subdivided into the following classes: Residential, Commercial, Industrial, and
21 Public Authority. The wholesale customer classes include the nine wholesale
22 communities and the County Institutions.

23 Schedule 13 shows the proposed rates and rules.

1 Schedule 14 shows the customer water bill comparison at present and proposed rates for
2 representative customers in the various customer classes in each of the retail community
3 classifications: Urban - Milwaukee; Suburban - Other (Greenfield, Hales Corners, and St.
4 Francis); and Suburban - West Milwaukee.

5 **Q. Please describe the approach taken in developing rates in this proceeding.**

6 A. The general approach used in this proceeding is to use the cost of service study as a
7 starting point to design rates to match the cost of providing service. Another factor to
8 consider is continuity with present rates. As shown on Schedules 11 and 11A of
9 Exhibit 12.2, the cost of service study results show a relatively wide range of increases in
10 the charges to the various customer classes. I am recommending rates that move
11 substantially in the direction of the cost of service. I also recommend that any further
12 movement necessary in that direction be made in subsequent rate proceedings. In moving
13 toward the cost of service in recommended rates, I have done some tempering of the rate
14 increases to customer classes within some of the classifications of service that, according
15 to the cost of service study, should receive the largest percentage increases. Where
16 tempering is done, the resulting revenue difference is recovered through rates to the
17 remaining customer classes within the classification. I would add that the percentage rate
18 increase to any individual customer would not necessarily equal the overall increase to
19 the associated customer class, but would depend on the specific usage level of that
20 customer.

21 **Q. Please discuss any specifics for Urban retail customers (City of Milwaukee).**

22 A. For retail customer classes within the City of Milwaukee, the cost of service study shows
23 general service increases ranging from 26.8 percent for Urban Commercial to 50.5

1 percent for Urban Industrial. My initial rate proposal would temper the impact to Urban
2 Industrial in the interest of continuity and would provide for an increase of 38.9 percent,
3 which is approximately 92 percent of the cost of providing service. At the request of
4 MWW, I developed an alternative rate proposal, Exhibit 12.4, Alternative Rate Design
5 Proposal (PSC REF#: 130475), which would further temper the impact to the Urban
6 Industrial class and to the largest Urban Industrial customers in particular. It would
7 provide for an increase to Urban Industrial of 30.7 percent, which is approximately 87
8 percent of the cost of providing service. This further tempering was accomplished by
9 decreasing the bottom two volume block rates by 13 cents per 100 cubic feet and
10 increasing the top two volume block rates by 3 cents per 100 cubic feet in Schedule Mg-1
11 of Schedule 13 from the initial rate proposal and results in small increases for Urban
12 Residential and Urban Commercial compared to my initial rate proposal. With respect to
13 both rate proposals, I recommend that further movement necessary toward the cost of
14 service study results be made in subsequent rate proceedings.

15 **Q. Please discuss any specifics for Suburban retail customers (outside the City of**
16 **Milwaukee).**

17 A. There is an additional factor to be considered with respect to customers outside the City
18 of Milwaukee served at retail by MWW. Wisconsin Stat. § 62.69(2)(h) provides that
19 charges for service to customers outside the Milwaukee City limits “shall not be less than
20 one-quarter more than those charged to the inhabitants of the city for like use of water.”
21 For all customers outside the City of Milwaukee that are served at retail, with the
22 exception of those in West Milwaukee, the statutory requirement just described results in
23 higher general service rates than would be required to cover the cost of providing service.

1 As a result, this statutory requirement is the controlling factor in designing general
2 service rates for these outside retail customers. Present and proposed general service
3 rates for Suburban - Other customers are the Urban retail rates applicable within the City
4 of Milwaukee plus 25 percent. With respect to rates for Suburban - West Milwaukee, a
5 factor that must be considered is that West Milwaukee owns and maintains its water
6 distribution system. Adjusting for this factor, the statutory requirement described above
7 does not control as it does for Suburban - Other.

8 **Q. Please discuss any specifics for wholesale customers.**

9 A. For wholesale customers, the cost of service study shows general service increases
10 ranging from 16.1 percent for Greendale to 61.6 percent for Mequon, with an average
11 increase of 31.0 percent. Present rates include the same volume rate for all of the
12 wholesale customers, with the service charge as a “true-up” mechanism to account for the
13 differences in the costs of providing service to each wholesale customer. Some
14 tempering of present wholesale rates was done in the interest of rate continuity. Proposed
15 wholesale general service rates provide no tempering. The proposed wholesale service
16 charges are based on the proposed Schedule Mg-2 charges for the wholesale meters in
17 place, and the proposed wholesale volume charges are individually set in order to recover
18 the full cost of providing service to each wholesale customer.

19 **Q. Please discuss any specifics for Urban retail public fire protection charges.**

20 A. In order for the total for retail public protection to be at 100 percent of the cost of
21 providing service, I am proposing a 28.8 percent increase in the public fire protection
22 charges to retail customers in the City of Milwaukee, which is approximately 98 percent
23 of the cost of providing service.

1 **Q. Please discuss any specifics for the Suburban retail public fire protection charges.**

2 A. Present public fire protection charges for each Suburban retail community were
3 calculated separately based on the cost of providing service, as had been done in prior
4 rate cases, without regard for Wis. Stat. § 62.69(2)(h). My proposed charges for
5 Suburban retail public fire protection are 1.25 times the Urban retail (City of Milwaukee)
6 public fire protection charges, based on Wis. Stat. § 62.69(2)(h). Also, St. Francis has
7 opted to move from a municipal charge to direct charges for public fire protection.

8 **Q. Please discuss any specifics for the wholesale public fire protection charges.**

9 A. The proposed public fire protection charges for the wholesale customers follow very
10 closely the cost of providing service with no tempering. For the first time, I have
11 included a public fire protection charge for the County Institutions. This brings them in
12 line with the other wholesale customers.

13 **Q. Do you have any comments about the operating rules?**

14 A. I propose no change.

15 **Q. Does this complete your direct testimony in this proceeding?**

16 A. Yes, it does.